



News Release

Media Relations Office

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Tel. 202.622.4000

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IRS Reminds Farmers that National Tobacco Settlement Payments are Taxable Each Year

WASHINGTON – Landowners, producers and tobacco quota owners who receive money from the National Tobacco Settlement Trust must report those payments as income each year, the Internal Revenue Service said today.

These payments are considered gross income for federal tax purposes and are taxable as ordinary income. Many tobacco farmers and others associated with tobacco production receive settlement payments from the trust, which was established to provide aid to tobacco growers and tobacco quota owners. The payments compensate for lost revenue because of decreased demand for tobacco, and ease potential economic consequences in states where tobacco is grown.

Tobacco companies are required to make the payments as part of the National Tobacco Grower Settlement. Farmers in 14 states will receive the payments over a 12-year period that began in 1999. The 14 states are Alabama, Florida, Georgia, Indiana, Kentucky, Maryland, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia, and West Virginia.

“These payments are taxable as part of gross income and some of those who receive them may not be aware of that,” Acting IRS Commissioner Bob Wenzel said. “Since these payments can range from hundreds to thousands of dollars, the possible penalties and interest charges for not reporting the income could be substantial. We want to help those who receive these payments avoid making an error on their tax returns.”

Taxpayers should receive a Form 1099-MISC in January that shows the payment amount to report on their 2002 return. The payment is reported as income on different tax forms, however, depending on specific taxpayer situations. For example, a taxpayer who raises and sells a tobacco crop would report the payment as gross income on Schedule F, “Profit or Loss From Farming,” and would be subject to applicable self-employment tax. Landowners or tobacco quota owners, who historically have leased their tobacco-related property and did not help to produce the crop, would report the settlement payments as farm rental income on Form 4835, Farm Rental Income and Expenses.

IRS Publication 225, “Farmer’s Tax Guide,” has more information on these forms and how farm income should be reported. Publication 225 and tax forms are available through the IRS Web site at www.irs.gov or by calling 1-800-TAX-FORM (1-800-829-3676). Taxpayers can also contact the IRS toll-free at 1-800-829-1040 for more information.

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